



Director of
Central
Intelligence

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OCPAS/CIG
CY'S 477-486

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National Intelligence Daily

Thursday
4 October 1984

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CPAS NID 84-233.JX

4 October 1984

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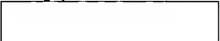
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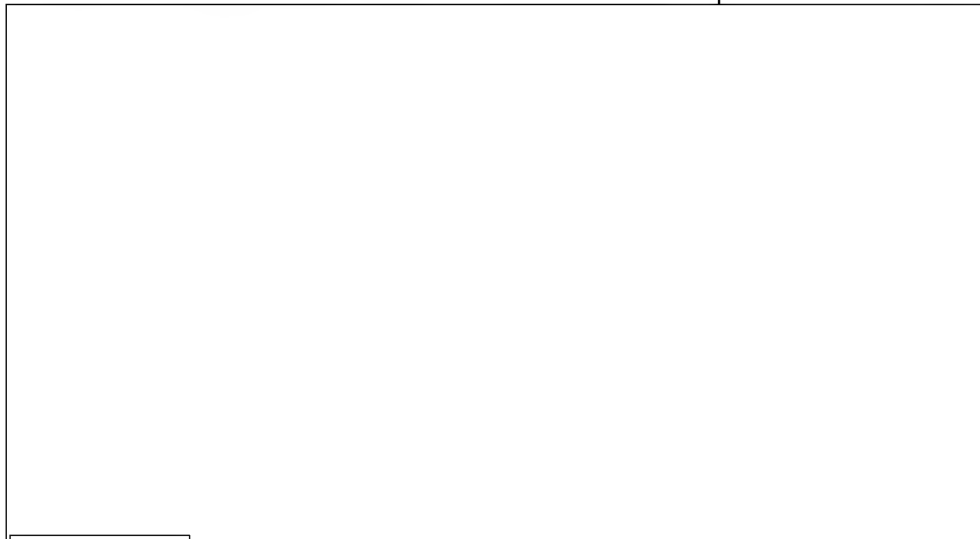
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**EGYPT-IRAQ-
SAUDI ARABIA:**

Seeking Renewed Relations

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[redacted] Saudi Minister of Petroleum and Mineral Resources Yamani met with President Mubarak in Cairo yesterday to discuss coordination between OPEC and Egypt. [redacted]

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Comment: Cairo believes restored relations with Baghdad, which spearheaded the Arab League decision to isolate Egypt, would give momentum to its reintegration into the Arab fold. Until now Cairo has maintained that the timing and circumstances of renewed relations are up to Baghdad. [redacted]

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Baghdad would prefer not to restore ties with Cairo until the Arab League approves Egypt's reintegration. Such a consensus is unlikely, however, and Iraq may soon restore relations on its own—but possibly after a second Arab state does so with limited repercussions. Iraqi President Husayn's glowing praise of Egypt in a recent speech may have been preparing the Iraqi public for restored relations. [redacted]

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Yamani's visit to Cairo was planned before Jordan's decision, but his meeting with Egyptian President Mubarak was attended by the head of the Saudi Interests Section and is the first Cabinet-level meeting with Egyptian officials since the Camp David accords. Saudi Arabia probably would not obstruct an Iraqi move to restore ties, but it and the other states of the Persian Gulf are unlikely to follow suit without the Arab League's endorsement. [redacted]

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POLAND:**Views on IMF Membership**

Warsaw increasingly believes that membership in the International Monetary Fund and World Bank is crucial to Poland's economic recovery, but some top officials are wary of the conditions the Fund may impose.

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Poland has based its strategy for economic recovery on the hope of receiving substantial credits from the IMF and World Bank by mid-1985. Poland's recent amnesty was intended to influence Western countries to allow Polish membership in both organizations.

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Key officials reportedly are increasingly willing to accept IMF conditions that could lead to further economic reforms. Others continue to balk at the prospect of close IMF scrutiny and at tougher austerity measures.

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The Poles reportedly do not expect Moscow to oppose their membership because it is not prepared to assume Warsaw's financial obligations. A recent Soviet press article, however, indicates that Moscow remains skeptical about IMF conditions.

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Comment: Although the Poles now appear to be more realistic about the benefits of IMF membership, they still believe they can get new credits quickly. Even if processing of Poland's IMF membership began today, technical problems, including Poland's sizable overdue debt payments, would probably delay entry until 1986.

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Moreover, Warsaw's continued reluctance to impose tough austerity measures would hamper negotiations for sizable Fund credits. Poland's failure to obtain large amounts of Western credits over the next five years will severely retard the growth of imports necessary for economic expansion.

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The Soviets are unlikely to provide the necessary aid. Although they will continue to object to further Polish political concessions, they probably will not block Warsaw's entry.

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KAMPUCHEA:

Military Activity

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Combat activity is increasing as Vietnamese and Communist Democratic Kampuchean guerrilla forces attempt to strengthen their positions before the dry season from November to May.

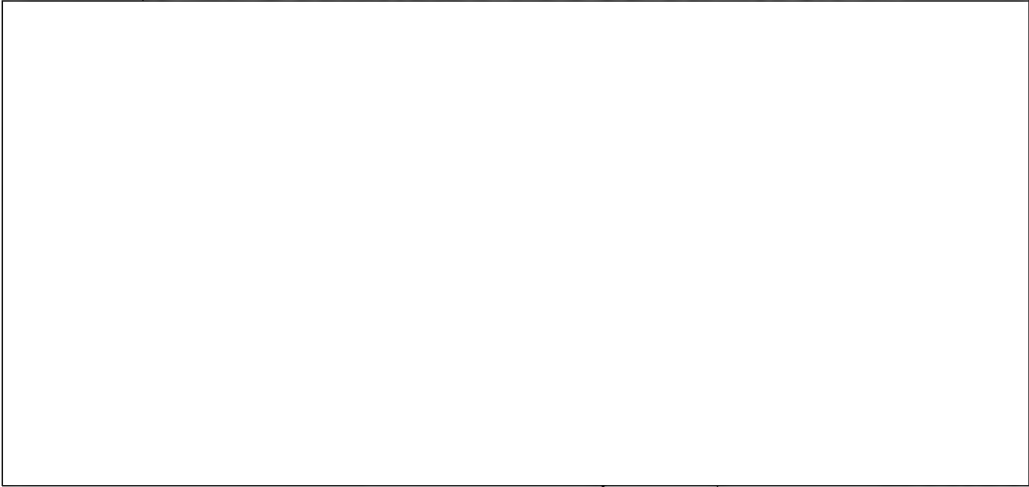


The US Embassy in Bangkok reports heavy fighting near the Communist guerrilla stronghold at Phnom Melai this week.



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The Vietnamese have stepped up sweep and ambush operations in the area.



Comment: The Vietnamese in the past have withdrawn most of their units to the interior during the rainy season. This year, however, they have maintained steady pressure against the major resistance bases along the Thai border. This strategy has stymied non-Communist forces and has kept Communist operations well below last year's levels. Intense localized fighting is likely over the next few weeks as the Vietnamese attempt to prevent the guerrillas from gaining momentum.



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PERU:**Jeopardizing Credit**

Peru's refusal to meet interest payments on its debt will jeopardize foreign financial support for the remaining nine months of President Belaunde's term.

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Central Bank officials recently indicated that they do not intend to draw on Peru's \$1 billion in foreign exchange reserves for debt payments until foreign bankers release the final \$100 million installment of an embargoed loan. According to the US Embassy, Lima now owes \$100 million in payments.

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Central Bank

President Webb reportedly is resisting pressure from the Finance Minister to disburse interest payments until the government moves to reduce the growing budget deficit.

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Some banks have lowered the status of Peruvian loans and have stopped recording the accrual of interest on them, according to the Embassy. Moreover, the \$2.5 billion refinancing plan for this year, originally scheduled to be signed on 31 August, has been postponed until at least 10 October.

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Comment: Lima's pressure tactic is likely to backfire. The unpaid interest and the disagreement within the government will complicate reconciliation with the IMF and make foreign bankers more reluctant to release the \$100 million loan, renew trade credit, and refinance maturing debt.

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If cash problems intensify, Belaunde might suspend talks with bankers. As a last resort, he could also declare a moratorium on foreign debt payments in hopes of rallying nationalist sentiment to improve his party's standing among voters.

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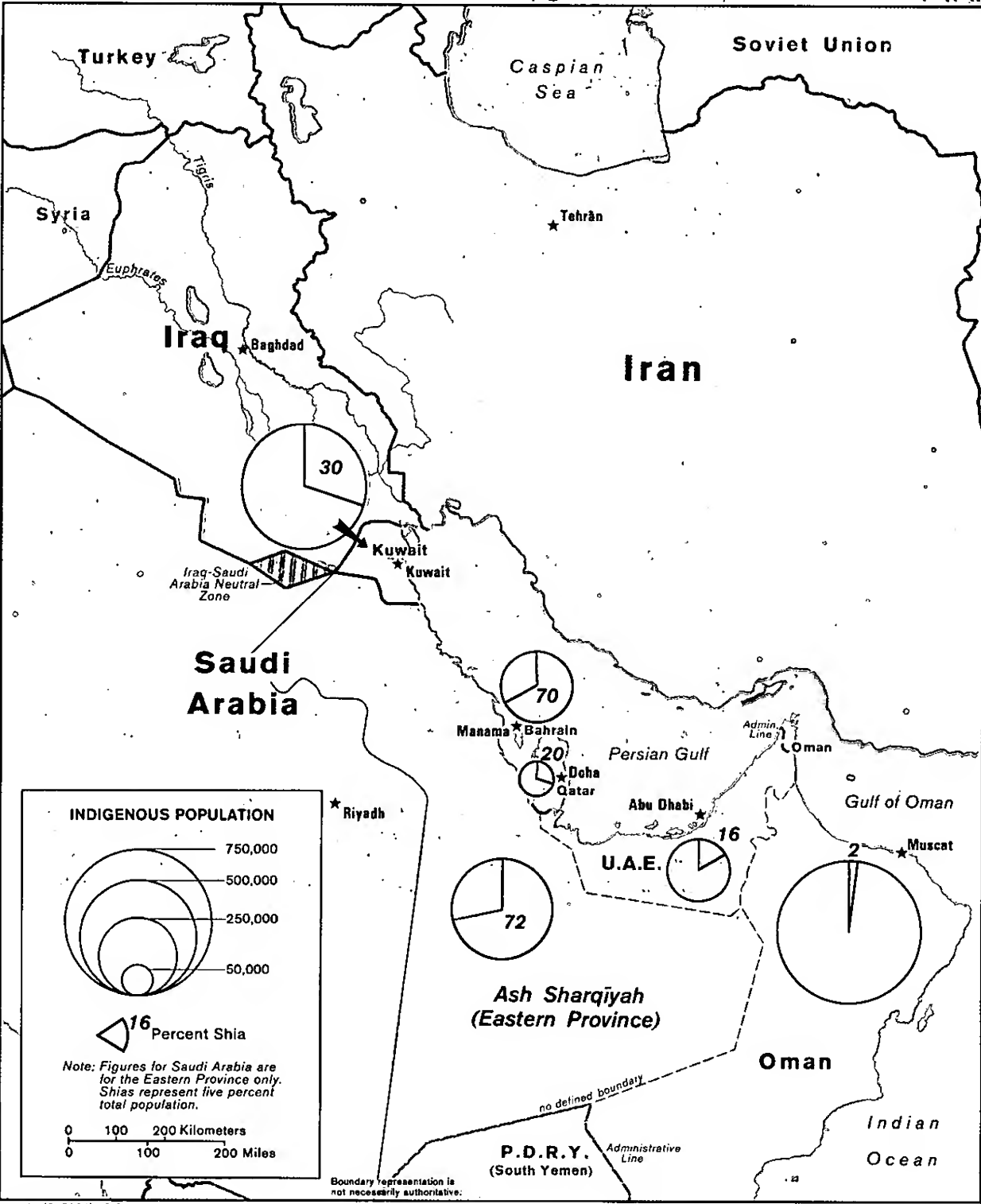
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Shia Muslims in the Western Persian Gulf Region



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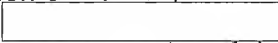

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PERSIAN GULF: Quiet Anticipated for Shia Holiday

Security officials in the Arab states of the Persian Gulf are alert to possible unrest during the Shia celebration of Ashura, which begins tonight, but do not expect disturbances.  Kuwaiti authorities have deported more than 900 people—most of them foreign Shias—since April and have warned community leaders not to encourage demonstrations. Bahrain has banned foreign Shia religious teachers from entering the country. The Shia community there hopes its good behavior during the holiday will win the reopening of its educational center and the release of 11 imprisoned leaders of the Shia Dawa Party. 

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Comment: Ashura—commemorating the martyrdom of the Prophet's grandson at Sunni hands—has erupted in antigovernment violence in the past, but this year most Shia communities appear to want to avoid any confrontation with government authorities. Shia leaders in Kuwait may still revere Khomeini and his revolution, but they hope to gain seats in National Assembly elections next year. In Saudi Arabia, clashes with the Shias in 1979 and 1980 led the regime to increase spending on development in Shia areas and to improve relations with the Shia community. 

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NETHERLANDS: Problem for COCOM Enforcement

The ruling last week by a Dutch court on exports of sensitive material may have a negative effect on Dutch efforts to stop diversions of COCOM-controlled equipment. A Dutch firm was acquitted of charges that it illegally exported high-resistant steel pipes for a uranium enrichment plant in Pakistan. The judge held that no export license was required because the pipes were not designed specifically for use in a nuclear facility and were not strategic. The Foreign Ministry, which had hoped the case would serve as a warning to potential diverters, now fears it might have the opposite effect.

[redacted]

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Comment: Although this case did not involve exports to a Communist nation, it may be used as a precedent for challenges to COCOM controls. The greatest effect may be on COCOM rules that control equipment designed specifically for certain functions—for example, machine tools for aircraft manufacturing.

[redacted]

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MOZAMBIQUE: Cease-Fire Talks

The Mozambican Government and the Mozambican National Resistance insurgents yesterday formally agreed to negotiate a cease-fire following South African-mediated talks in Pretoria. A commission of Mozambican Government and insurgent representatives chaired by a South African official now is in session. The South African Foreign Minister announced the commission will set a date for the cease-fire that South African troops will help to monitor, according to the press.

[redacted]

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Comment: Although the insurgents acknowledged Somora Machel as the President during the talks, both sides probably remain far apart on terms for a settlement. Pretoria continues to back insurgent demands for a government of national reconciliation, while Maputo has offered only a general amnesty. A South African military presence in Mozambique would strain Maputo's relations with Moscow and Havana—both of which maintain a large number of advisers in Mozambique—and further damage Machel's remaining credibility as a Frontline State leader. A significant South African role also could cause major divisions within the ruling FRELIMO party.

[redacted]

[redacted]

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BOLIVIA-US: Concessions Offered for Aid

Bolivian President Siles has promised the US Ambassador that he would remove Communist Party members from his government, arrest major narcotics traffickers, and carry out tough economic measures in return for \$100 million in US economic assistance. Siles argues that such aid would enable him to complete his term and ensure the establishment of democracy. The US Embassy predicts that Siles, facing growing pressure from the military, will be ousted unless he moves to stem the deterioration in the economic situation.

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Comment: The danger of runaway inflation is growing, and divisions in the labor movement reduce labor's ability to challenge unpopular moves by Siles. Together these factors strengthen the likelihood that he will agree to some long overdue austerity measures. Nevertheless, renewed pressure by labor could cause him to fail to follow through. Siles probably is increasingly willing to oust the Communists, whose usefulness has diminished following their removal from the leadership of the national labor confederation. The President recently has taken limited steps against cocaine traffickers, but a major effort would be resisted by some senior officials who have links to the traffickers.

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CYPRUS: Turkish Cypriot Activity

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According to a US Embassy, the Turkish Ambassador also said that the Turkish Cypriot Constituent Assembly was scheduled to meet this week and at some point would begin discussion of a new draft constitution.

Comment: Despite Turkish Cypriot assurances that nothing significant will take place before the next round of UN-sponsored talks on 15 October, the Turkish side is probably laying the groundwork for elections some time this fall. The scheduling of elections—or any developments in that direction—almost certainly would be fatal to the UN peace initiative and would be likely to lead to a crisis atmosphere.

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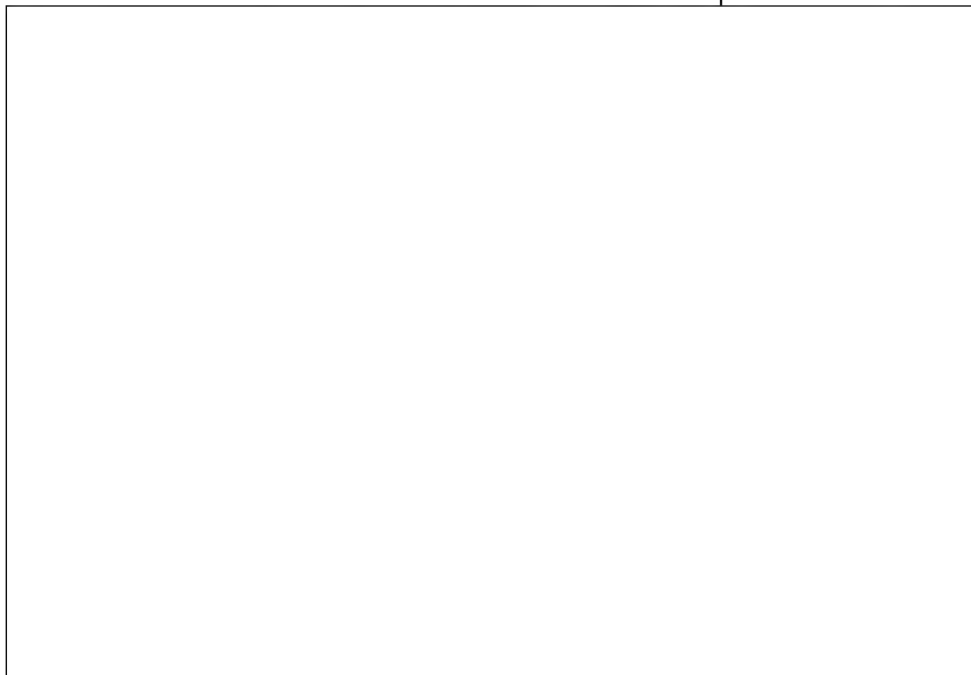
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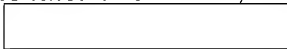
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**EC: Budget Settlement**

The agreement of EC Foreign Ministers on a supplementary budget for the rest of the year will give the Community only a short respite from its financial woes. The agreement on Tuesday provides almost \$750 million in emergency revenues—interest-free loans from member states to be repaid when new Community tax measures become effective in 1986. The plan is contingent on the EC Council's final approval of new regulations to curb agricultural spending and on the European Parliament's release of a budget rebate of nearly \$550 million to the UK. The European Parliament will consider the rebate later this month, when it takes up the draft budget for next year. 

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Comment: The 1985 budget continues to provide expensive agricultural price supports and will almost certainly cause further cost overruns. These will require special steps again next year. EC attempts to control farm spending are unlikely to prove effective, and the Community probably will repeat its cycle of budgetary problems in 1986 and 1987. 

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In Brief

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Americas

- **Salvadoran** guerrillas reinfiltrating area near naval base with eye to attacking US advisers. [redacted]

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[redacted] insurgents in capital thinking again of strikes against US facilities, including Embassy. [redacted]

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- **USSR** reportedly has asked to open consular office in **Trinidad and Tobago** . . . first indication of Soviet interest . . . some Trinidadian officials interested in expanded trade, but domestic opposition probably will block Soviet office. [redacted]

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- **Canada** demanding UNESCO reform and put an end to its political partisanship . . . demarche made in attempt to prevent US withdrawal from organization . . . Tories' tone tougher than Trudeau's, but they are unlikely to leave UNESCO. [redacted]

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Middle East

- **Iraqi** media announced arrival yesterday of Deputy Chairman of **Soviet** Council of Ministers . . . will visit dam being constructed by Soviets . . . may discuss energy projects and details of reported \$2 billion Soviet loan. [redacted]

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- [redacted] there were two assassination attempts against **North Yemen's** President Salih last month . . . eight Muslim Brotherhood members involved in latest attempts executed . . . President's brother also may be implicated. [redacted]

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- US Embassy says **Saudi Arabia** will appoint former Health Minister Gosaibi, fired for writing poem critical of King, as ambassador to **Bahrain** . . . important diplomatic post . . . appointment represents unusually quick political rehabilitation. [redacted]

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Eastern Europe

- Publicity about some 43 **East German** asylum seekers in **West German** Embassy in Prague threatens resolution of issue . . . East Berlin wary of **Soviet** concern over humanitarian concessions . . . Bonn sensitive to punishment given some previous asylum seekers. [redacted]

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USSR

- **Soviet** official reports sunflower seed crops—providing vegetable oil for consumers and protein for livestock—affected by blight . . . says USSR must import million tons of vegetable oil and 500,000 tons of soybean meal . . . **Brazil** probably will benefit most from soybean meal purchases. [redacted]

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East Asia

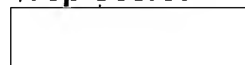
- **China** conducted underground nuclear explosion yesterday . . . yield about 20 kilotons . . . first Chinese nuclear test this year, 30th overall, and eighth underground test . . . has conducted about one test a year since 1979 . . . no atmospheric tests since 1980. [redacted]

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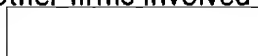
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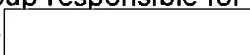
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Terrorist Watch

Western Europe

— A group calling itself the Fighting Communist Cells has claimed responsibility for the recent bombings in Brussels of two multinational firms that manufacture items used with NATO cruise missiles. A communique suggests that terrorist attacks against other firms involved with cruise missiles also may be planned. 

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— Greek police have strengthened security at US installations, official residences, and businesses after receiving information that terrorists plan to attack "an American target" in Athens. Most likely the terrorists are members of 17 November, a Greek leftist group responsible for assassinating a US naval officer last year. 

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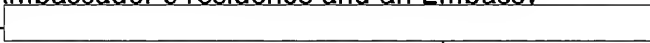
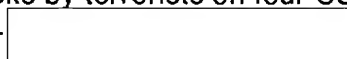


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Latin America



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— A leftist group possibly is targeting two US installations in Lima—the Ambassador's residence and an Embassy warehouse—
This development follows attacks by terrorists on four US installations in late September. 

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Special Analysis**USSR:****Possible Central Committee Plenum**

Soviet and East European officials assert that an unusual meeting of the Central Committee will be held soon.

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the meeting will occur in late October—rather than before the end of next week, as earlier reports suggested. Soviet Ambassador Dobrynin told a US official on Monday that he would not be attending the meeting because it would deal with agriculture, not international affairs.

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If Dobrynin is correct, it may be that this year's grain harvest—the sixth consecutive below-average crop—has prompted an extraordinary review of Soviet agricultural policy. Such a review could hurt Mikhail Gorbachev, the party secretary in charge of agriculture. On the other hand, his high profile in recent months suggests that he has not suffered politically from this harvest, and a Central Committee plenum on agriculture would give him an ideal opportunity to demonstrate his leadership abilities.

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Possible Personnel Changes

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suggested that the Central Committee plenum will deal with personnel changes. Although no specific personnel moves have been tied to the plenum, Premier Nikolay Tikhonov, 79, will be replaced by Vitaliy Vorotnikov, the Russian Republic Premier. The recent illness of 83-year-old Vasiliy Kuznetsov, First Deputy Chairman of the Supreme Soviet Presidium and a candidate member of the Politburo, suggests that he too could relinquish his posts. Among the younger leaders, Vladimir Dolgikh, the 59-year-old party secretary in charge of heavy industry and a possible Chernenko ally, seems a likely candidate for promotion from candidate to full membership in the Politburo.

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It remains unclear whether any leadership changes would include Chernenko. His recent public appearances and the unusual tributes paid to him on his birthday last week—particularly his public designation as "Supreme Commander in Chief" by Defense Minister Ustinov—suggest a strengthening of his political position. On the other hand, these accolades may be an effort to pave the way for honorable retirement.

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Special Analysis

INDIA:

Gandhi's Political Reverses

Major political problems in an election year have forced Prime Minister Gandhi to halt efforts to bring opposition-led states under her control and to divide Sikh dissidents. To regain the initiative, she probably will step up her party's efforts to splinter the emerging opposition alliance that threatens her prospects in the election, which should be called before February, according to the Indian constitution.

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Gandhi probably hoped that restoring Chief Minister Rama Rao to power in Andhra Pradesh would stem the loss of support for her party in the southern states.

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Most Indian observers had predicted that protest voting in Andhra Pradesh against the Congress Party's involvement in Rama Rao's ouster would carry over into the national parliamentary elections.

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Fallout from Gandhi's dismissal of Rama Rao, however, probably has already damaged her strategy in the south beyond repair. Reactions in the regional party that rules neighboring Tamil Nadu State have caused a split that may seriously hurt its leader—a longtime Gandhi ally. Indian analysts estimate that party unity there probably would have assured her of at least 20 parliamentary seats, which she may now lose.

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Gestures Toward the Sikhs

Gandhi's removal of Army guards last week from the Sikhs' Golden Temple at Amritsar probably was aimed at undercutting Sikh unity against her government. A coalition of Sikh factions had threatened to march on the Golden Temple on Monday. She is likely to postpone the controversial issue of a political settlement with the Sikhs until after elections.

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Renewed violence from militant Sikhs this week may make Gandhi's gesture toward moderate Sikhs fruitless. The government was forced to send paramilitary troops into the Golden Temple after followers of the late extremist leader, Jarnail Singh Bhindranwale, tried to take over the shrine and raised the separatist flag of "Khalistan."

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Opposition Strategy

Opposition party leaders are portraying Rama Rao's return to power as a victory for their protest campaign against his ouster. Andhra Pradesh was the third state since May in which a governor appointed by Gandhi dismissed an elected chief minister and his government. The leaders fear she might try for control of other opposition-led states before elections. [redacted]

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Gandhi probably hopes Rama Rao's restoration has deprived the fractious opposition parties of the only issue that has united them since her return to power in 1980. Rama Rao could even become a divisive influence in the opposition if, capitalizing on the wave of sympathy that followed his ouster, he renews his claims to be a national spokesman for the opposition. His past efforts alienated other opposition leaders. [redacted]

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Without a single unifying issue, the diverse opposition may fail to achieve a broad, durable alliance. The opposition is now likely to focus anew on such criticism of Gandhi's government as the division of authority between national and state governments, law and order problems, corruption, and unresolved regional grievances in Assam and Tripura States. [redacted]

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Prospects for National Elections

Gandhi's main concern is to encourage divisions in the opposition. If she partially succeeds and faces an alliance including only some of the opposition parties, she probably will calculate that national approval of her crackdown on the Sikhs in Punjab will net enough new votes from northern Hindus to offset the loss of support from southern voters, Muslims and Sikhs. [redacted]

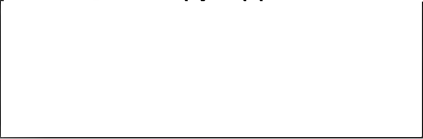
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If, however, Gandhi concludes that a broadly unified opposition or her own weakened standing might cost her the election, she may move to postpone it. She probably is reluctant to use a declaration of a national emergency to do so because it might galvanize the opposition to unite, as it did in 1975. She may choose instead to invoke a constitutional loophole allowing her to postpone elections beyond the deadline until as late as June. [redacted]

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